

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

**WEAKNESSES IN INTERNAL CONTROLS
OF STATE AGENCIES**

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

F-283

WEAKNESSES IN INTERNAL
CONTROLS OF STATE AGENCIES

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Telephone:
(916) 445-0255



Thomas W. Hayes
Auditor General

STATE OF CALIFORNIA
Office of the Auditor General
660 J STREET, SUITE 300
SACRAMENTO, CALIFORNIA 95814

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F-283

Honorable Art Agnos
Chairman, and Members of the
Joint Legislative Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning weaknesses in internal controls of state agencies. We noted the weaknesses during our evaluation of internal accounting controls that we made as part of our examination of the General Purpose Financial Statements of the State of California for the year ended June 30, 1982.

We found that the State of California is losing millions of dollars because agencies do not adequately pursue amounts owed to the State, do not adequately monitor travel and salary advances to employees, and do not keep sufficient records of their equipment. Additionally, the State's financial records do not provide all information to present the State's financial statements in conformity with generally accepted accounting principles.

Respectfully submitted,

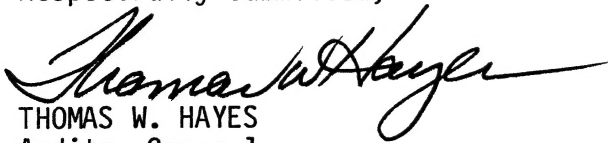

THOMAS W. HAYES
Auditor General

TABLE OF CONTENTS

	<u>Page</u>
SUMMARY	i
INTRODUCTION	1
AUDIT RESULTS	5
I WEAKNESSES IN REVENUE ACTIVITIES	5
II WEAKNESSES IN EXPENDITURE ACTIVITIES	13
III WEAKNESS IN TREASURY ACTIVITIES	19
IV WEAKNESSES IN REPORTING ACTIVITIES	21
V WEAKNESSES IN COMPLIANCE WITH FEDERAL REGULATIONS	34
RESPONSE TO THE AUDITOR GENERAL'S REPORT	
Department of Finance	46
APPENDICES	
A DISTRIBUTION OF WEAKNESSES IN INTERNAL CONTROLS BY STATE AGENCY BASED ON MANAGEMENT LETTERS ISSUED FOR FISCAL YEAR ENDED JUNE 30, 1982	A-1
B PERFORMANCE AUDIT REPORTS ISSUED JULY 1, 1981 TO JUNE 30, 1982	B-1

SUMMARY

The State of California loses millions of dollars annually in foregone interest, bad debts, and lost assets because of weaknesses in the internal control systems intended to safeguard the State's assets. While the opportunity to recover past losses is limited, many losses could be prevented in future years through tighter controls at executive agencies. The Office of the Auditor General has made specific recommendations to various executive agencies to help them improve existing controls. During our audit of the State's financial statements for fiscal year 1981-82, we found that 43 of the 69 agencies we tested had at least one weakness in internal controls. The 69 agencies process about 80 percent of the dollar volume of transactions in the State.

We noted weaknesses in revenue activities in 27 agencies. Sixteen of the agencies had weaknesses in collecting money due to the State. Some agencies did not bill for goods or services provided, did not bill for goods or services promptly, or did not follow up on delinquent accounts. As a result, some of the State's potential revenues are now uncollectible. Other weaknesses in revenue activities relate to the depositing and classifying of collections. Because several agencies did not deposit collections within the time limits established by the State Administrative Manual, the State was not able to use the collected monies immediately to pay for expenditures or to invest in interest-producing accounts. Finally, at some agencies we noted a lack of separation of duties among those employees charged with handling cash. At several agencies, for example, the same

employees who collected money also maintained the accounting records. The lack of separation of duties increases the risk that an employee could divert collections to improper uses, as actually happened at several campuses of the California State University. For instance, since 1980 at the Sacramento campus, more than \$100,000 of collections were allegedly diverted to the personal use of an employee.

Thirty-four state agencies had weaknesses in expenditure activities. Eighteen of the agencies that we visited had weaknesses in the control over the revolving funds from which the agencies make payments directly to vendors and to employees. The lack of control resulted in improper expenditures and in agencies' making interest-free loans and advances that were never paid back to the agencies. Agencies also exhibited weaknesses in the separation of duties related to disbursements. For example, some employees had access to the blank check stock and also maintained related accounting records for cash disbursements and accounts payable. While we did not find any instances of misconduct in this area, the lack of separation of duties related to disbursements increases the risk that employees could use state funds for personal gain.

Moreover, many agencies did not comply with reporting requirements established by the Department of Finance. The State of California exercises poor control over billions of dollars in such fixed assets as machinery, office equipment, and computers. State agencies cannot identify at present all assets that they have or should have under their control. For this reason, the State Controller could not report on general fixed assets in the State's financial statements. Also, 17 of the agencies that we evaluated either did not prepare the required year-end reports in a timely manner or did not submit complete financial reports to the State Controller.

Another weakness we noted is that in maintaining its accounting records, the State does not fully comply with generally accepted accounting principles, which are recognized throughout the nation. As a consequence, the Office of the Auditor General was required to make extensive adjustments to convert the State's financial records so that they would be acceptable to the investment community. The main problem with the State's current method of maintaining accounting records is that this method significantly understates liabilities. As of June 30, 1982, this understatement equalled about \$700 million.

Finally, we noted several instances in which state agencies are not complying with federal requirements for administering grants. In return for the receipt of federal grants, the federal government requires the State to adhere to certain regulations in disbursing the grant funds. The compliance requirements typically address recipient eligibility, reimbursable costs, program monitoring, and reporting. Four of the 5 agencies we tested for compliance did not fully comply with all provisions of the federal requirements, and 8 of the 14 largest grants that we audited were not administered in full compliance with all grant requirements. While none of the conditions of noncompliance are significant enough to place the State in jeopardy of losing continued funding, they should nonetheless be corrected. The federal government could require reimbursement of all funds that the State expended while not fully complying with all grant requirements.

INTRODUCTION

We have examined the General Purpose Financial Statements of the State of California for the year ended June 30, 1982. As part of this examination, we studied and evaluated the State's system of internal accounting controls as required by generally accepted auditing standards, by the standards for financial and compliance audits of the Comptroller General of the United States, and by the Office of Management and Budget's Circular A-102, Attachment P.

The purpose of our study of the system of internal accounting controls was to determine the audit procedures and the extent of testing required to express an opinion on the General Purpose Financial Statements of the State. In conducting our audit, we visited 69 of the State's more than 250 agencies; in dollar volume, these 69 agencies process approximately 80 percent of the transactions of the State. To test expenditures and expenses, we selected a random sample from 81 percent of the \$37 billion in total expenditures and expenses of the State. To test revenues, we selected a sample from 76 percent of the \$39 billion in total revenues. These percentages do not include the coverage provided by other independent auditors of agencies or funds. For the General

Fund alone, we tested a random sample drawn from 90 percent of the \$21 billion in expenditures and 94 percent of the \$20 billion in revenues.

The function of internal accounting controls is to provide reasonable assurance that the State's assets are safeguarded against loss, that transactions are executed in accordance with management's authorization, and that transactions are recorded properly. The authority for establishing the system of internal accounting controls rests with the Department of Finance and state agencies, while the responsibility for implementing and maintaining the system rests with the management of each of the State's agencies.

The Department of Finance exercises its authority through the State Administrative Manual, which prescribes procedures and rules that all agencies must follow unless they are specifically exempted. In addition, the Department of Finance audits the agencies' adherence to the prescribed procedures. Each state agency exercises its authority through its own procedures manual. Some degree of control is also exercised by the State Controller, the State Board of Control, the Department of General Services, and the State Personnel Board. The State's system of internal controls thus consists of a multitude of individual systems that operate within the

framework of the State Administrative Manual, the State Board of Control Rules, and the procedures manuals of individual agencies.

For the purposes of this report, we divided the State's system of internal accounting controls into the following four categories that comprise the State's financial transactions: revenues, expenditures, treasury, and reporting. In the following sections of this report, we discuss the weaknesses in internal accounting controls as classified in these four categories. We also discuss weaknesses in compliance with federal regulations governing the administration of federal grants. Additionally, we show the distribution of weaknesses according to agency (Appendix A).

As a result of our review, we issued a letter to each agency calling to the attention of management the weaknesses we found during our audit. During fiscal year 1981-82, we also issued 38 performance audit reports, most of which discussed improvements needed in controls. (The titles of these reports are listed in Appendix B.) These letters and reports are available to the public upon request.

Limitations

We studied and evaluated the State's system of internal accounting controls solely to determine the audit procedures and the extent of testing necessary for expressing an opinion on the General Purpose Financial Statements. Therefore, we limited our study of internal controls and of state and federal laws and regulations to those that may have a material effect on the financial statements. We did not perform sufficient tests to express an opinion on the State's system of internal controls. Also, because our audit tests are based on random samples of transactions, our study would not necessarily disclose all material weaknesses.

AUDIT RESULTS

I

WEAKNESSES IN REVENUE ACTIVITIES

Twenty-seven of the state agencies that we reviewed had various types of inadequate internal controls over revenue activities. Revenue activities involve the receipt of tax collections and federal grants, billings for delinquent taxes, as well as billings for goods and services rendered, and subsequent follow-up and collection of those billings.

We noted that several agencies did not maintain adequate procedures for billing and collecting delinquent accounts and for classifying and depositing cash that was collected. Additionally, several agencies did not properly recognize revenues. Moreover, some agencies did not adequately separate the duties of collecting revenues from those of accounting for revenues. As a result of these weaknesses in internal accounting controls, the agencies' financial reports at June 30, 1982, were improperly stated, and money owed to the State was not available for the State's use. In addition, the State lost the interest income that would have been earned had the amounts been collected and deposited promptly. The inadequate separation of duties made it possible for state

employees to use cash receipts for unauthorized purposes. In the following sections, we provide some examples of these inadequate controls over revenues.

Inadequate Procedures
for Billing and
Collecting Receivables

Sixteen of the 27 agencies having inadequate internal controls over revenue activities had inadequate procedures for billing or collecting amounts owed to the State. As a result of this deficiency, many receivables were either collected long after they were due or not collected at all, and money owed to the State was not available for the State's use. In addition, the State lost the interest income that would have been earned had the amounts been collected and deposited promptly. Sections 8776.3 and 8776.5 of the State Administrative Manual require that agencies bill as soon as possible after recognizing a claim due the State and develop procedures for collecting accounts receivable.

We noted that 8 of the 27 agencies had inadequate billing procedures. For example, the Department of Forestry did not promptly request reimbursement for fire protection services provided for local agencies. If the department had billed for services and received payment an average of three

months sooner, the State could have earned additional investment income of approximately \$400,000 during the year. In another example, the Department of Transportation did not bill the federal government \$6.6 million in contract retentions until approximately 22 months after this amount was due. As a result of delayed billing, the \$6.6 million was not available for the State's use. Furthermore, the State could have earned approximately \$530,000 in interest on this amount had the receivables been billed and collected promptly. These estimates are based upon an earning rate of 12 percent, approximately the rate of interest earned by the State for the year under review.

Moreover, we found that 11 of the 27 agencies had inadequate collection procedures. For example, the Board of Equalization did not adequately pursue the collection of delinquent use tax receivables with balances under \$200. The total amount due for these receivables was \$2.2 million as of June 30, 1982. Except for a semiannual mailing of statements of account, the board took no action to collect these receivables. Likewise, the Department of Transportation did not consistently follow established collection procedures for delinquent accounts receivable related to highway damages. As a result, as of June 30, 1982, an estimated \$1.8 million in receivables was uncollectible. Finally, as a third example,

the Department of Alcohol and Drug Programs did not establish an adequate program for collecting delinquent accounts owed by providers of drug rehabilitation services. The department did not periodically review delinquent accounts and did not promptly and systematically send follow-up notices in cases of nonpayment. Consequently, the department estimated that as of June 30, 1982, approximately \$1 million (17 percent) of its accounts receivable balance may have been uncollectible.

Inadequate Procedures
for Classifying and
Depositing Collections

Five of the state agencies that we reviewed had not classified a significant portion of their collections at June 30, 1982. According to Section 7630 of the State Administrative Manual, the uncleared collection account is used to record cash collections that are being analyzed to determine whether they are to be refunded to payers or remitted to a fund in the State Treasury. This account also contains fees that have not been earned. Failing to classify these collections can result in the failure to refund amounts due to payers. Moreover, until collections are properly classified, there may be an understatement of funds available for appropriation because remittances are not made to the correct fund in the State Treasury.

For instance, as of June 30, 1982, the Department of Motor Vehicles' uncleared collections account balance totaled approximately \$106 million. However, the department was unable to provide a detailed listing of the uncleared collections that matched the account balance total. Similarly, as of June 30, 1982, the Department of Health Services had unclassified collections of \$12 million. Because the department did not maintain a detailed listing of the uncleared collections, accounting personnel were unable to credit the proper funds with their respective amounts. Additionally, the Department of Housing and Community Development classified all of its collections by June 30, 1982, but credited \$9.7 million of collections to the wrong account because of improper controls over the classification process. Approximately one-quarter of this amount should have been disbursed to counties. Consequently, the counties lost interest income because they did not receive the funds until the department discovered the error.

Two of the state agencies that we reviewed did not promptly deposit collections. At the Employment Development Department, we tested 78 employer tax returns and found that the collections for those returns had not been deposited for at least 4 working days; in some cases the collections remained undeposited for up to 13 working days. The department's

procedures require that all tax returns be examined before the collections are deposited. Because the department receives a large number of tax returns, the examination process, and thus the deposits, may be delayed. The department's fiscal management audit division estimated that, for the period from February 1981 through January 1982, the department lost \$3.2 million in interest income because of the delays in depositing tax collections. If the department had employed a different processing method to allow collections to be deposited promptly, it could have earned most of the \$3.2 million.

The Board of Governors of the California Community Colleges also did not deposit collections promptly. Some of the individual collections amounted to \$500,000. Rather than depositing them promptly, the board held these collections for up to six days.

Inadequate Procedures For Recognition of Revenues

Nine agencies did not report to the State Controller all revenues that had been earned as of June 30, 1982. Section 8290 of the State Administrative Manual requires that amounts that are earned but not received and are estimated to be collectible within one year be recognized as revenue of the

current year. The State Controller uses information submitted by agencies to prepare the State's annual financial statements. If the agencies submit erroneous or incomplete information and the errors are not detected, the State's annual statements will be misstated.

The Department of Transportation was one of the agencies exhibiting this weakness. The department receives income from the rental of houses but did not recognize \$3.2 million in rental income earned as of June 30, 1982, and thus understated its revenue account. Because the department did not anticipate receiving a significant amount of rent from housing at June 30, 1982, the department did not establish procedures to recognize this income. The department also earns income by renting traffic signals and street lights. Although the department established procedures to record revenue receivables that were measurable and collectible at June 30, 1982, it neglected to record these receivables.

Inadequate Separation of
Duties Pertaining to Revenue

Five of the 27 state agencies having inadequate internal controls over revenue activities did not have adequate separation of duties involving various revenue activities including billing, recording, collecting, and depositing. In

some agencies, we found that employees who recorded and monitored receivables also received and recorded the related collections. Additionally, some employees who accounted for collections and made bank deposits were also responsible for reconciling bank accounts. Good internal control requires that an employee not be assigned more than one of the above duties. Failure to separate these duties provides the opportunity for an employee to use cash receipts for unauthorized purposes.

At the Department of Water Resources we noted that the same employee who recorded billings and payments in the invoice register also received and deposited the related collections. Additionally, at the Fresno campus of the California State University, which was one of the ten campuses that we visited, we found that the same employee who prepared invoices also maintained the accounts receivable ledger and received collections for deposit. Also, since 1980 more than \$100,000 of collections were allegedly diverted for the personal use of an employee at the Sacramento campus. Other problems with cash collections were reported at the San Francisco, Sonoma, and Dominguez Hills campuses.

II

WEAKNESSES IN EXPENDITURE ACTIVITIES

Thirty-four of the state agencies that we reviewed maintained inadequate control over expenditure activities. Expenditure activities include paying employees, purchasing and paying for goods and contracted services, and paying benefits or grants to individuals or other governmental entities. While agencies generally initiate and authorize requests for payment, the State Controller prepares and issues the warrants for payments. However, to expedite payments when it is more efficient and beneficial for the State, agencies are authorized to prepare and issue payments from their own revolving fund allocations.

During our review, we found that 18 of the 34 agencies did not adequately control the use or amount of the revolving fund cash allocation. Furthermore, 5 agencies did not adequately reconcile their bank accounts, and the State Controller does not maintain current files of the names of individuals authorized to approve claim schedules and personnel and payroll documents. In addition, 21 agencies failed to separate duties pertaining to payroll, personnel, and other operating transactions. These weaknesses affect budgetary

controls and expose the State to loss of funds from improper or fictitious disbursements. In the following sections, we provide some examples of inadequate controls over expenditures.

Inadequate Control Over Revolving Fund

We found 18 agencies that did not adequately control the authorized use or amount of their revolving fund allocations. At the Department of Justice, for example, all operating and equipment expenditures for the months of April through June 1982 had been paid from the revolving fund. However, Section 8110 of the State Administrative Manual states that revolving funds are to be used only for payment of compensation earned, travel advances and expenses, or when immediate payment is necessary. Payments made through the revolving fund are not subject to prepayment audit by the State Controller; therefore, the Department of Justice circumvented a major control over expenditures.

We also found that the Department of the Youth Authority had not adequately accounted for expenditures paid through its revolving fund. For example, because the department's Youth Training School does not maintain a receivables ledger, the department could not provide adequate

detailed support for approximately \$235,000 in payments made for vendor invoices, and salary and travel advances. Section 8190 of the State Administrative Manual requires that agencies use a receivable ledger and cash book to account for all revolving fund transactions. Because revolving fund accounting records were not adequately maintained, the facility had little assurance that payments were properly made.

Inadequate Reconciliation of Bank Accounts

Five agencies have had continuous problems in reconciling their bank accounts. For example, the Department of Housing and Community Development was not able to reconcile its general checking account balance at June 30, 1982. We found an unreconciled difference of \$1.2 million. The Department of Corrections has been unable to reconcile one of its division's general checking accounts since July 1976 because the division's field offices have not provided sufficient information about their revolving fund disbursements. As of July 30, 1982, the division still had an unreconciled amount of over \$265,000.

Section 8060 of the State Administrative Manual requires monthly reconciliations of all bank accounts. Bank reconciliations are a critical part of the system of internal

control since they reconcile agencies' cash receipts and disbursements to the records of the State Controller. Failure to reconcile accounts can result in the misstatement of cash balances and may also prevent the detection of irregularities such as an unauthorized disbursement or the failure to deposit monies.

Listings of Authorized
Signatures Are Not Kept Current

We found that the State Controller has not maintained current files of the names of persons who are authorized to approve claim schedules and personnel and payroll documents. At the State Controller, we reviewed the signature authorization documents of 61 state agencies. We found signature authorization cards for 315 persons who were no longer authorized by their agencies to sign claim, personnel, and payroll documents. Moreover, the State Controller did not have signature authorization documents for 69 persons who were authorized by their agencies to sign claim, personnel, and payroll documents. Proper internal controls require that the State Controller periodically reconcile its lists of authorized signatures with agency lists. Failure to do so could result in unauthorized disbursements.

Inadequate Separation of
Duties Involving Disbursements

At 21 of the state agencies, we noted inadequate separation of duties involving authorizing, processing, and distributing payroll warrants and revolving fund checks. Fifteen of these 21 agencies had not adequately separated duties pertaining to payroll and personnel functions. For instance, at the Department of Social Services, the same employees who certified attendance reports and processed other payroll documents also handled salary warrants that are to be redeposited into the State Treasury. Section 8580.1 of the State Administrative Manual requires that persons who receive salary warrants, distribute salary warrants to employees, or handle warrants for any other purpose should not be authorized to process or sign personnel documents.

We also found that 10 of these 21 agencies did not adequately separate cash disbursement duties. For example, at the State Water Resources Control Board, an employee who was responsible for preparing revolving fund checks also operated a check-signing machine and compared checks with authorizations and supporting documents. At the Board of Governors of the California Community Colleges, we found that employees who signed revolving fund checks, posted to subsidiary records, or reconciled the bank statement also had access to or controlled the blank check stock.

Section 8080 of the State Administrative Manual prescribes that duties involving cash transactions be adequately separated and that no one person perform more than one of the prescribed duties that include preparing checks, operating a check-signing machine, comparing machine-signed checks with authorizations and supporting documents, and reconciling bank accounts. Additionally, only the employee who prepares the checks should have access to the blank check stock. Adequate separation of duties is necessary to safeguard the State's cash reserves. Failure to separate disbursement duties adequately could result in payments to fictitious employees or unauthorized payments for goods and services that were not received.

III

WEAKNESS IN TREASURY ACTIVITIES

The State Treasurer carries out all activities that relate to investing monies not currently needed to meet the obligations of the State and borrowing money by issuing debt instruments such as bonds. We noted only one weakness pertaining to the State's treasury activities. This weakness has not resulted in any loss of state funds.

Absence of Written Reverse Repurchase Agreements

The State Treasurer does not require a written agreement for reverse repurchase transactions. Reverse repurchases are transactions in which a security is sold under agreement to repurchase that security at a later date. A reverse repurchase transaction is a relatively new activity that allows the State to increase its investment income. The State Treasurer does not require a written agreement for reverse repurchase transactions because there is no statutory requirement for such agreements. However, the Public Securities Association recommends the use of formal written reverse repurchase agreements that describe the nature of the transactions, the terms and conditions of the contract, and the rights of the parties.

Because reverse repurchase transactions are complex and relatively new, the legal issues relating to the rights of the parties involved have not been fully resolved. The absence of written agreements may expose the State to risks in the event of default or litigation. Therefore, the interests of the State may be more adequately protected through the use of formal written reverse repurchase agreements.

IV

WEAKNESSES IN REPORTING ACTIVITIES

We found weaknesses in the reporting activities of 17 of the agencies that we audited. In addition, we have identified certain reporting weaknesses that exist throughout the State's accounting system. These systemwide weaknesses exist because the State Administrative Manual does not provide adequate instruction to agencies for presenting financial information in accordance with generally accepted accounting principles.

We found that a large number of agencies did not comply with the reporting requirements established by the Department of Finance. Of particular concern is the agencies' inadequate accountability for fixed assets. Further, agencies did not adequately or promptly prepare financial reports, including the reconciliation of agency account balances to the State Controller's balances.

In addition, we found weaknesses that complicate the conversion from the State's legal basis of accounting to the accounting methods specified by generally accepted accounting principles. The State Administrative Manual does not

adequately define expenditures, reimbursements, advances, loans, and transfers under generally accepted accounting principles. Accordingly, many agencies do not provide adequate information for the conversion.

Finally, the State needs to develop additional information for a fair presentation of the General Purpose Financial Statements. To ensure that the State Controller can prepare these statements properly, the Department of Finance should instruct the responsible agencies to provide information to the State Controller on lease commitments, probable losses from lawsuits against the State, unused vacation and sick leave balances, and the market value of the State's investment in securities at the end of the fiscal year.

**Background: The State's
Reporting Activities**

We included as "reporting activities" all activities that are directly related to the preparation of the State's financial statements after the end of the fiscal year. Thus, these activities include the preparation of year-end reports that all agencies are required to submit to the State Controller and the State Controller's compilation of the financial statements from its own records and the agencies' reports.

Throughout the year, the State Controller maintains records of the State's cash receipts and disbursements. Because of the State Controller's central role in the State's disbursement function, most disbursement transactions are originally made by the State Controller. However, some disbursements, as well as most receipts, are originally recorded by agencies, and the agencies are required to report these transactions to the State Controller within specified periods. Like the State Controller, agencies also record cash disbursements and receipts during the fiscal year. The State Controller and the agencies thus maintain roughly parallel records.

At the end of the fiscal year, agencies are required to report to the State Controller all cash transactions that they have not previously reported, as well as certain accruals that allow the State Controller to convert the State's records from a cash basis to a modified accrual basis. Other important reporting requirements include reconciling revenues and appropriation expenditures between the State Controller's records and the agencies' records, preparing on the modified accrual basis a pre-closing and post-closing trial balance of the agencies' accounts, and certifying fixed assets.

Each year, the State Controller prepares the Annual Report to satisfy the State's legal reporting requirements. However, the State's legal basis of accounting includes several accounting practices that differ significantly from the accounting practices specified by generally accepted accounting principles. Since bond rating companies require the State to submit audited financial statements prepared in conformance with generally accepted accounting principles, the State Controller also prepares the General Purpose Financial Statements. These statements also include those audit adjustments that are suggested by the Office of the Auditor General and with which the State Controller has concurred.

Inadequate Accountability
For Fixed Assets

The State Controller did not include the General Fixed Assets Account Group in the General Purpose Financial Statements. Therefore, our audit scope did not include examination of the State's general fixed assets. However, we did analyze prior years' internal control questionnaires and related findings over property and equipment at 77 agencies. Our analysis revealed some significant trends in types of problems common to the majority of state agencies. Furthermore, we noted that the problems at some agencies were multiple and ranged from incorrect recording to inadequate physical control of fixed assets.

A major problem is that the State Administrative Manual does not require agencies to retain records that support the historical cost or value of acquired or donated property. Invoices supporting the cost of property are currently included in claim schedules maintained by agencies and the State Controller. These claim schedules are normally shipped to the State Archives within two years. The warehouse operated by the State Archives normally keeps the records for five years from the date of origination. However, most of the State's fixed assets are more than five years old. Consequently, because the records have been destroyed, a large portion of the fixed asset values cannot be substantiated.

Our analysis indicated that 7 agencies did not correctly record the cost of purchased assets and that 17 agencies did not report the cost of improvements on their financial statements. Section 8655.1 of the State Administrative Manual states that agencies shall record the net cost of the property they purchase. In addition, Sections 8652.2 and 8652.21 require that improvements on owned and leased property be recorded in the property records unless they are on leased property and are not expected to be removed at the end of the lease.

Additionally, 22 agencies did not have sufficient records to support their fixed assets account balance. Finally, 40 agencies had not assigned custodial responsibility and 36 agencies had not taken a physical inventory of fixed assets. Section 8659 of the State Administrative Manual provides guidelines to protect and control fixed assets.

The weaknesses in the accounting and physical control of fixed assets did not allow the State Controller to include the General Fixed Assets Account Group in the General Purpose Financial Statements. As a result, we had to qualify our opinion on the fairness of the presentation of the General Purpose Financial Statements. Moreover, the inadequate physical control over fixed assets exposes the State to the potential loss of some of these assets.

Inadequate and Untimely
Preparation of Financial Reports

As part of our examination, we reviewed the mathematical accuracy and reconciliation of the agencies' financial reports. We found that 17 agencies had incorrectly prepared or failed to prepare all required financial reports. In addition, several agencies did not submit their financial statements by the required due date.

August 20. However, the Department of Education did not submit its financial reports until December 1, 1982. The Department of Alcohol and Drug Programs did not submit its final financial reports until November, four months after they were due. Failure to submit final financial statements promptly delays the State Controller's compiling of complete financial statements for the State of California.

We observed two major reasons for the inadequate and untimely reporting. One reason was inadequate staffing in the accounting offices of a number of agencies. One cause of the inadequate staffing was a high turnover of accounting personnel that resulted in either inexperienced staff or insufficient staffing. Furthermore, the State's inadequate policies for hiring, training, and compensating accounting officers also contributed to inadequate staffing. This is also the conclusion reached by a special study group headed by the Department of Finance, which in February 1982 issued a report on the State's difficulty in maintaining adequate staffing of its accounting offices. A second reason for the reporting problems was the conversion of several agencies from a manual bookkeeping system to the complex computerized California State Accounting and Reporting System (CALSTARS). Most agency accountants were not adequately prepared for this change.

Inadequate Procedures for Conversion to GAAP Basis

The State Controller prepares the Annual Report in conformity with the State's legal basis of accounting and the General Purpose Financial Statements in conformity with generally accepted accounting principles (GAAP). However, the Department of Finance has not provided sufficient instructions to the State's agencies to make the conversion from the legal basis to the GAAP basis efficient and reliable. As a result, the financial information that agencies provide to the State Controller is frequently inadequate and, therefore, requires excessive time to correct. In the following paragraphs, we discuss the main differences between the legal basis of accounting and the GAAP basis that have not been adequately communicated to the agencies.

Under the legal basis of accounting, monies earned by the State for services provided to external entities are recorded as reimbursements. The State Controller subsequently combines reimbursements with the expenditures so that only the net expenditures are reported in the Annual Report. For example, for fiscal year 1981-82, the California State University accounted for student fees of \$107 million as reimbursements. Statement No. 1 of the National Council on Governmental Accounting, which is the primary source for

generally accepted accounting principles for governmental entities, requires that receipts for services from sources external to the state government be accounted as revenues and that they not be used to reduce the amount of expenditures. The purpose for this requirement is to show the full amount of activities of the entity.

Another difference between the legal basis of accounting and the GAAP basis lies in the recording of disbursements. As a general rule, under the legal basis, disbursements from a fund are recorded as expenditures of that fund, although the disbursements may represent transfers, advances, or loans. Under the GAAP basis, transfers should be shown in a separate category on the operating statement to avoid accounting for expenditures twice. For example, "advances" made to the Architecture Revolving Fund during the year should be recorded as transfers-out in the disbursing fund and as transfers-in in the Architecture Revolving Fund so that the actual expenditure will be shown only in the Architecture Revolving Fund when a capital project is carried out. Also, advances and loans do not represent expenditures at the time the disbursements are made. At that time, they appear only on the balance sheet and not on the operating statement. They become expenditures only when goods and services are received or when a loan is forgiven. Conversely, loan repayments do not represent revenues.

A final difference between the legal basis of accounting and the GAAP basis is that state law does not treat all expenditures consistently. While the State's expenditures are converted to an accrual basis at year end, the law provides that the Health Care Deposit Fund remain on the cash basis. Changing this legal provision would not only make the State's accounting system more consistent, it would also eliminate a significant adjustment necessary for converting financial statements to the GAAP basis of accounting.

Insufficient Information
for GAAP Purposes

The financial information required under generally accepted accounting principles is more extensive than the information provided by the legal basis of accounting. As a result, the State needs to make extensive efforts to develop the additional information. The main problems relate to additional information needed for proprietary funds and nonexpendable trust funds, lease commitments, possible losses from lawsuits against the State, unused vacation and sick leave balances, and the market value of the State's investment in securities. In the following paragraphs, we provide a brief overview of these disclosure problems.

Generally accepted accounting principles require that governmental entities account for operations of proprietary

funds and nonexpendable trust funds in essentially the same manner as private business enterprises. Therefore, the State's financial statements should not only include a balance sheet and an operating statement but also a statement of changes in financial position for those funds. In addition, GAAP require that financial information on segments of an enterprise be included in the notes to the financial statements. The State Administrative Manual has not yet addressed these requirements.

Generally accepted accounting principles also require extensive information on lease commitments. These disclosures relate not only to lease-purchases but also to operating leases. Currently, the Department of General Services classifies most leases as operating leases because of the standard provision in governmental lease contracts that allows governmental units to terminate leases for lack of funding. However, some leases should be reclassified as capital leases, that is lease-purchases, for presentation in the General Purpose Financial Statements.

Another reporting problem arose because the State's Attorney General did not provide us with the amount of probable losses from pending litigation against the State. Liabilities that could arise from the future resolution of an existing condition should be disclosed in accordance with Statement No. 5, "Accounting for Contingencies," of the Financial

Accounting Standards Board. Because this information was lacking, we included a qualification in our opinion on the General Purpose Financial Statements for the year ended June 30, 1982.

Furthermore, the recently issued Statement No. 4, "Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences," of the National Council on Governmental Accounting requires certain disclosures for compensated absences (i.e., paid vacation and sick leave). The main requirement states that liabilities for compensated absences must be accumulated at the end of each accounting period and be adjusted to current salary costs. The requirement does not have to be implemented until fiscal year 1983-84. However, the Department of Finance should address this problem early, because providing the information will require some commitment of resources.

Finally, we found that the State Treasurer does not report the market value of the State's investments in securities at the end of the fiscal year. Such reporting is required under generally accepted accounting principles.

WEAKNESSES IN COMPLIANCE
WITH FEDERAL REGULATIONS

The federal government requires the State to comply with specific criteria on each of the grants that the federal government gives to the State. Typically, federal requirements address recipient eligibility, reimbursable costs, program monitoring, and reporting. During our review of 14 federal grants administered by 5 state agencies, we noted a number of potential noncompliance issues; however, we do not consider these findings to constitute material weaknesses. The 5 state agencies administering the 14 federal grants we reviewed are the State Department of Education, the Department of Health Services, the Department of Social Services, the Department of Transportation, and the Employment Development Department. In the following sections, we discuss the weaknesses we noted at each administering agency.

State Department of Education

The State Department of Education (SDE) administers 3 of the 14 federal grants we audited. Two of the 3 are administered at the federal level by the U.S. Department of Education; they are the Elementary and Secondary Education Act, Title I - Educationally Deprived Children (ESEA, Title I), and

the Education of the Handicapped Act, Title VI, Part B - Handicapped Preschool and School Program (EHA, Title VI, Part B). The third program we audited was the National School Lunch Program, which is administered at the federal level by the Department of Agriculture.

During the course of our examination, we found that the SDE needs to improve its system for monitoring and enforcing federal grant requirements and to improve its accountability for federal funds.

Federal regulations state that local educational agencies may use ESEA, Title I, funds to supplement but not supplant funds normally provided by state and local sources. We sampled 30 school districts that the SDE had audited for compliance. Seven of the districts that the SDE identified as not being in compliance with federal regulations had not responded to the SDE because the SDE had not taken sufficient action to obtain a response from these districts.

We also reviewed 30 school district audit reports in which the independent auditors reported noncompliance with various federal grant requirements. We found that 9 of the districts did not respond to the SDE Audit Bureau inquiry concerning reported conditions of noncompliance. The Audit

Bureau did not take sufficient action to obtain a response from these districts.

To comply with federal recordkeeping requirements, financial status reports should be supported by the SDE's accounting records. However, we found that the SDE's 1980-81 interim financial status report for EHA, Title VI, Part B, did not agree with expenditures reported in the SDE's general ledger. Further, there were no worksheets reconciling the two amounts. We found that expenditures in the general ledger exceeded expenditures reported in the financial status report by approximately \$27 million.

Finally, we reviewed the U.S. Department of Education Audit Reports No. 09-10100, dated September 28, 1981; No. 09-20002, dated November 12, 1981; and No. 09-20005, dated January 19, 1982. These audit reports cite the SDE for not recording costs in accordance with the federal regulations that require each grant to be accounted for and reported on separately. The audit reports conclude that the State's method of accounting for federal funds resulted in the SDE's using lapsed funds. The SDE maintains that its method of commingling funds belonging to different grant years and using the oldest funds first is acceptable. The SDE continues to account for federal funds in this manner. The SDE advised us that this

issue is being resolved through negotiations between the SDE and the federal government.

Department of Health Services

The Department of Health Services (DHS) administers 2 of the 14 federal programs we reviewed--the Medical Assistance Program and the Special Supplemental Food Program for Women, Infants, and Children. These programs are administered at the federal level by the Department of Health and Human Services and the Department of Agriculture, respectively.

We noted weaknesses in the DHS' Medi-Cal quality control sample that may jeopardize the statistical validity of the conclusion reached on error rates related to federal expenditures. Additionally, we found that the DHS does not promptly reconcile food vouchers issued to food vouchers redeemed under the Special Supplemental Food Program for Women, Infants, and Children.

The federal government requires the DHS to sample paid claims to identify types and amounts of errors and thus draw inferences about the error rate for the total caseload. The DHS uses its findings to develop cost-effective methods of eliminating those errors that lead to erroneous Title XIX expenditures. We found that the Medi-Cal quality control

sample of paid claims excluded an aid code for which federal financial participation is received and included an aid code for which federal financial participation is not received. The sampling universe is supposed to include 36 aid codes for which Title XIX federal financial participation is available. An incorrect sampling universe jeopardizes the statistical validity of the conclusions reached on error rates related to federal expenditures.

The federal government requires that the records of issued food vouchers be reconciled against the records of redeemed food vouchers to control the accuracy of the records. However, the DHS does not promptly reconcile food vouchers issued to food vouchers redeemed under the Special Supplemental Food Program for Women, Infants, and Children. As of December 15, 1982, the April 1982 reconciliation had been completed but the May 1982 reconciliation was still in progress. In order to detect possible irregularities promptly, the DHS should complete the reconciliation sooner.

In addition to the weaknesses discussed above, we noted five other minor compliance issues. For example, we found that two food vouchers had been redeemed by banks before the vouchers' issue date. These minor weaknesses are documented in our workpapers, which are available for public review.

Department of Social Services

The Department of Social Services (DSS) administers 5 of the 14 federal programs we reviewed. At the federal level, the Department of Health and Human Services administers 4 of these programs: Assistance Payments and Maintenance Assistance, Refugee Assistance-Indochinese Refugees, Social Services-Low Income and Assistance Recipients, and Child Support Enforcement. The fifth program, Food Stamps, is administered at the federal level by the Department of Agriculture.

We noted possible weaknesses in the DSS' procedures for collecting overpayments made to ineligible recipients in the Aid to Families with Dependent Children program. We also noted potential noncompliance with federal eligibility and reporting requirements in the Refugee Assistance-Indochinese Refugee program, and we found that the DSS is behind in processing food stamp reports and nonfraud collection incentives. Finally, the State may owe the federal government over \$600,000 for outstanding food stamp billings dating back to 1972.

County welfare departments may not be promptly collecting overpayments made to ineligible recipients of Aid to Families with Dependent Children. Federal regulations require

the State to take all reasonable steps to correct overpayments. Further, state regulations require that counties take all reasonable steps to correct and collect promptly any overpayments that are known to the county. The State allows each county to establish its own collection procedures within state guidelines. However, the counties' collection procedures may be inadequate since the counties had recovered only a low percentage of the identified overpayments we reviewed.

In addition, county welfare departments may be providing refugee assistance benefits to persons who are not eligible to receive them. To be eligible for federal benefits, clients must have documented status as a refugee and meet conditions specified by the federal Office of Refugee Resettlement. However, we were unable to determine whether county welfare departments are complying with federal eligibility requirements because the federal Immigration and Naturalization Service could not provide us with all information that we needed to make such a determination.

Further, the DSS may not be meeting the federal reporting requirements for unaccompanied refugees who are minors. The Office of Refugee Resettlement requires the State to provide information on the whereabouts and status of unaccompanied refugee minors. The information is used to update the federal master file of unaccompanied minors. To

meet the federal reporting requirements, the DSS requires each county to prepare a semiannual progress report for each unaccompanied refugee minor residing in the county. The DSS compiles the reports and transmits them to the Office of Refugee Resettlement. However, the DSS does not maintain a master list of all unaccompanied minors residing in the State; consequently, there is no assurance that the DSS receives all county reports for transmittal to the federal government.

In regard to the food stamp program, federal regulations require that the State recoup from recipients the value of food stamps issued as a result of recipient fraud or error. As an incentive to collect these funds, the federal government allows the State to retain a percentage of the amount collected. The DSS requires counties to submit a monthly report on "Status of Claims Against Households" that shows the amount of recoupments collected during the month. In addition, counties may submit revised reports that correct previous reports. Based on the reports, the DSS computes the federal, state, and county shares of the recoupments and adjusts the financial records related to the amount of federal funds requested and the amount of payments to counties. The DSS summarizes the county reports into one statewide report and transmits that report to the federal Food and Nutrition Service. However, the Department of Social Services has not processed the revised "Status of Claims Against Households"

reports or processed the county share of incentive payments that relate to nonfraud recoupments for fiscal year 1981-82. We discussed this issue with DSS officials and learned that the DSS has given priority to meeting current reporting requirements before processing revised reports and nonfraud incentive payments.

Finally, federal regulations require agents issuing food stamps to prepare a "Food Coupon Accountability" report (FNS 250). The federal Food and Nutrition Service bills the counties for the value of the food stamp inventory and cash shortages reported on the FNS 250. At the time of our review, the State was appealing an FNS claim for approximately \$1.3 million for outstanding FNS 250 billings dating back to 1972. By the end of our fieldwork, counties had provided documentation supporting the State's contention that the amount owed is actually \$630,000. The State has established procedures to reimburse the federal government for the amount owed once the appeal has been decided.

Department of Transportation

The Department of Transportation (Caltrans) administers the Highway Research, Planning, and Construction Program. The U.S. Department of Transportation administers this program at the federal level.

During our review, we found that Caltrans has charged the federal government for certain costs that may not be eligible for federal reimbursement. In addition, Caltrans may not be obtaining federal approval of contract time extensions that affect project costs or liquidated damages.

Each month, under current state regulations, Caltrans estimates the progress on the contract and determines how much the contractor will be paid. Caltrans deducts from its payment to the contractor those amounts to be paid to other parties. Caltrans bills the federal government for that amount of the contractor's progress payment that meets federal eligibility requirements. In some cases, however, Caltrans' billings to the federal government included charges for amounts withheld from a contractor that did not meet federal eligibility requirements shown in Caltrans' accounting manual. We found that \$305,000 of the \$581,000 in withheld payments that Caltrans billed to the federal government may be ineligible for federal reimbursement. Costs that may not be eligible for federal reimbursement, for which Caltrans billed the federal government, included contractor overbillings, royalty payments by contractors for the use of state materials, penalties imposed on contractors for the use of inferior materials, and penalties imposed for the failure to submit required labor reports. Although the federal government is currently paying

for these items, Caltrans corrects any incorrect billings by making adjustments when the contracts are completed.

Further, federal regulations require that the Federal Highway Administration approve all contract extensions granted by the State that affect project costs or liquidated damages. However, because the Federal Highway Administration does not provide Caltrans with a formal notice of approval, we were unable to determine whether Caltrans is in compliance with the regulations.

In addition to the weaknesses discussed above, we noted other minor compliance issues. For example, our test to determine that engineering costs did not exceed the federal limit of 10-15 percent of total construction costs revealed one case in which the 15 percent limit was exceeded by .02 percent or approximately \$14. These weaknesses are documented in our workpapers, which are available for public review.


Employment Development Department

The Employment Development Department (EDD) administers the Employment Service, the Unemployment Insurance, and the Comprehensive Employment and Training programs. The Department of Labor administers these programs at the federal level.

The EDD contracted with the State Controller to perform the compliance audit of these programs at the EDD. Because the State Controller had not issued its report at the time of our review, we performed additional audit work to satisfy our responsibility for auditing the State's financial statements. Nothing came to our attention during our review to indicate that the State is not in compliance with federal regulations applicable to the federally funded programs administered by the EDD. The State Controller's report of compliance is expected later this year.

We conducted this audit under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

Date: July 25, 1983

Staff: Ulrich Pelz, CPA, Audit Manager
Enrique Farias, CPA
Karen McKenna, CPA

Memorandum

Date : July 19, 1983

To : Thomas W. Hayes
Auditor General
660 J Street, Suite 300

Telephone: ATSS ()
()

From : **Department of Finance**
DIRECTOR'S OFFICE

Subject: Report F-283 - Weaknesses in Internal Controls of State Agencies

I appreciate the opportunity to comment upon the draft copy of subject report. While the title of the report leads one to conclude it covers only weaknesses in internal controls in state agencies, the report itself appears to us to address three major areas upon which I will comment. These include internal controls in state agencies; accounting in conformity with Generally Accepted Accounting Principles (GAAP); and compliance with Federal regulations.

Internal Controls in State Agencies

The Department of Finance has recognized the importance of the review and reporting on internal controls of state agencies and has been actively engaged over the last three years in implementing a program to effect major improvements. The Department, through its Financial and Performance Accountability Unit, is examining the system of internal control in all major state departments and institutions on a two-year cyclical basis. The report covering this review includes an opinion on the system of control as prescribed by the Statement on Auditing Standards (SAS), No. 30, Paragraph A, published by the American Institute of Certified Public Accountants. Further, these reviews are conducted in accordance with Standards for Professional Practice of Internal Auditing published by the Institute of Internal Auditors, Inc. as required by Section 1236 of the Government Code (AB 1229/82).

These reviews revealed similar findings of weaknesses in internal control systems in state agencies as included in your draft report. In addition to the recommendation for improvements contained in the reports issued, a response from the department or institution audited is included in the final report. A listing of the reports issued from July 1, 1981 to December 31, 1982 is included in Appendix A. We are of the opinion that major improvements have been noted in the second cycle of the reviews now underway and we will continue to monitor this progress. I will comment specifically on one finding since it appears more than once in your report. This involves the alleged diversion of funds at Sacramento Campus of CSU and cash problems at San Francisco, Sonoma and Dominguez Hills. In each of these cases, Department of Finance staff were the auditors of record who not only assisted CSU staff in the investigative review and subsequent legal action but also were instrumental in assisting CSU in making the administrative changes to prevent similar situations in the future. These are examples of the positive reviews carried out by my department.

In addition to these direct activities, the Department of Finance has been moving toward expanding audit coverage through its coordination role as prescribed by the Legislature in Sections 10534(c) and 12430 of the Government Code. This role for the department was further defined by Chapter 1167, Statutes of 1981 (AB 861). In carrying out this role, the Department has issued State Administrative Manual Sections 20000 through 20021 covering auditing of state agencies. The implementation of these new sections will not only strengthen internal controls within state agencies, but will assist them in meeting their responsibilities under the Financial Integrity and State Managers Accountability Act of 1983 (Sections 13400 through 13407, Government Code).

In conclusion, while we acknowledge that weaknesses have existed in the internal controls within state agencies, the Department of Finance is aggressively pursuing a statewide program which will result in their resolution.

Accounting in Conformity with Generally Accepted Accounting Principles (GAAP)

The issue of converting the State's financial reporting system to Generally Accepted Accounting Principles (GAAP) is both highly complex and multifaceted. A complete conversion would involve the budgeting and accounting systems of the State at both the control and operating levels. A total conversion to GAAP would have major cost impacts on the General Fund surplus and would require additional appropriations for certain programs. As noted in your report, the Health Care Deposit Fund is accounted on a cash basis. Changing this fund to an accrual basis would require additional appropriations of approximately \$400 million. Additional operating costs would also be required as a result of the additional information that would have to be accumulated under GAAP.

As you are aware, the Department of Finance has been exploring this issue with your office in order to identify the specific impacts of such a change. The fiscal impact of such a change must be weighed against its potential benefits. It should be noted that your office was able to include financial statements for the State in your audit report, in conformance with GAAP, for the 1981-82 fiscal year based on the data provided by the current system.

The Department of Finance believes that a change of this magnitude must be a decision of the Legislature. The State of New York recently instituted a plan to convert to GAAP. This plan was instituted by extensive and detailed legislation. Until a decision to convert completely or partially to GAAP is made by the Legislature, it would create confusion to issue any additional instructions to state agencies.

We have been reviewing your proposed legislation to convert to GAAP. When the current budget problems are resolved, we expect to be able to provide your office with comments and suggestions concerning your proposed legislation.

Compliance with Federal Regulations

The Federal Office of Management and Budget issued Circular A-102, Attachment P in December 1979, which prescribes the audit requirements of state agencies receiving Federal assistance. To implement these requirements in California, the Legislature enacted Chapter 1167, Statutes of 1981 (AB 861). The legislation required that the Auditor General, the Department of Finance, and the State Controller coordinate their efforts to insure that these audit requirements were met. The three entities formed an AB 861 Committee encompassing representatives from each group to formulate the statewide plans and I have been advised this committee has been operating successfully.

The OMB Circular requires amongst other items, that reports be generated regarding compliance with Federal rules and regulations and assurances that Federal financial reports contain accurate and reliable financial data (Paragraph C). The Committee assigned primary responsibility (FY 1981-82 and 1982-83) for the compliance reviews to be accomplished by the Auditor General and the assurances regarding Federal financial reports to the Department of Finance. The findings regarding compliance with Federal regulations contained in your report, therefore, constitutes the first report under this agreement. A number of the items reported have been also observed by the Department of Finance auditors in their review of the Federal Financial Statements. These reviews have also been covered by recent State Administrative Manual publications (Section 20014).

We are anxious to meet the requirements of the OMB Circular to insure that California continues to receive its share of Federal funds. The Department of Finance staff are currently working with the departments listed in your report, except for the Employment Development Department which is being reviewed by the State Controller, to insure compliance with Federal regulations are met expeditiously. I am sure this will be accomplished before the next review is completed.

I have one additional comment concerning the responsibility for responding to your audit findings in individual state agencies. I understand that each of the audited agencies was issued a report to which they were requested to respond within ten days directly to the Auditor General.

Since the Director of Finance is charged with the responsibility for supervising the State's accounting system (Government Code Section 13300), I am concerned that any weaknesses in an agency's accounting system be rapidly corrected. But I must also be concerned with maintaining uniformity in the State's accounting system.

In order to assure that weaknesses are corrected and uniformity is maintained, I feel that the Department of Finance should be more actively involved, at an earlier point, in your agency audits. Consequently, I am requesting the Department of Finance be involved in your exit conferences with the individual state agencies.

July 19, 1983

To carry out this request, I would appreciate your arranging to notify Manuel Mateo, the Program Budget Manager of Budget Operations, regarding the time and place of each of your future exit conferences with state departments. He will then arrange for a representative from the Department of Finance to attend the conferences.

Again, I appreciated the opportunity to comment upon the draft copy of your report. The State of California is a complex government entity and its proper administration requires the cooperative efforts of all branches of government.



MICHAEL FRANCHETTI
Director of Finance

Attachment

cc: Karl Dolk, Assistant Auditor General, Office of the Auditor General

FP 3328C

List of Internal Control Review
Reports Issued-Department of Finance
July 1, 1981 to December 31, 1982

<u>Date</u>	<u>Department Reviewed</u>	<u>Report #</u>
7/81	Sacramento State University	376-101
8/81	California State College, Stanislaus	04-480-123R
8/81	Department of Developmental Services Stockton State Hospital-Road Reconstruction	04-480-164
8/81	Department of Developmental Services Stockton State Hospital-Emergency Electric Sys.	04-480-165
8/81	Department of Motor Vehicles-EDP Audit	870-003
8/81	Department of Developmental Services Stockton State Hospital-Review of Internal Controls and Fiscal Compliance	431-441
8/81	Department of Developmental Services Agnews State Hospital-Review of Internal Controls & Fiscal Compliance	431-433
8/81	Department of Water Resources Review of Accounting Function	387-116
8/81	Department of the Youth Authority Fred C. Nelles School	547-553
9/81	Department of the Youth Authority Ventura School	547-559
9/81	Department of the Youth Authority Youth Training School	547-560
9/81	State Treasurer Statement of Security Accountability	095-005
9/81	Department of Fish and Game San Joaquin Hatchery	04-480-168R
10/81	Department of the Youth Authority El Paso De Robles School	547-552
10/81	Department of Developmental Services Napa State Hospital	431-436
10/81	Department of Corrections CA Rehabilitation Center	525-535

<u>Date</u>	<u>Department Reviewed</u>	<u>Report #</u>
10/81	Department of Developmental Services Sonoma State Hospital	431-440
10/81	Department of Developmental Services Camarillo State Hospital	431-434
10/81	Department of Mental Health Atascadero State Hospital	445-447
10/81	Department of Corrections California Institute for Women	525-532
11/81	Department of Corrections California Institute for Men	525-531
11/81	Department of Corrections California Men's Colony	525-534
11/81	Department of the Youth Authority Preston School of Industry	547-558
11/81	Department of the Youth Authority Northern California Youth Center	547-554
11/81	Department of the Youth Authority Northern Reception Center, Clinic	547-550
11/81	Department of the Youth Authority Northern CA Youth Authority Conservation Camps	547-173
11/81	Employment Development Department Review of Accounting Function	511-003
11/81	Department of Education Surplus Educational Property Revolving Fund	611-201R
12/81	Department of Developmental Services Sonoma State Hospital	04-480-169
1/82	Department of Developmental Services Patton State Hospital	431-438
1/82	Department of Rehabilitation Financial and Compliance Audit	516-003R
1/82	Department of Corrections CA State Prison at San Quentin	524-539
1/82	Department of Corrections CA Correctional Center at Susanville	524-529

<u>Date</u>	<u>Department Reviewed</u>	<u>Report #</u>
2/82	Department of Corrections Deuel Vocational Institution	524-537
2/82	Department of Corrections CA Men's Colony	524-534
2/82	Sonoma State University	683-101
2/82	Office of Criminal Justice Planning Review of the System of Internal Accounting Control	810-001
2/82	Department of Veteran's Affairs	196-001
2/82	Department of Corporations	218-001
3/82	San Francisco State University	680-101
3/82	Department of Veteran's Affairs Vet's Home	197-001
3/82	Hastings College of Law	04-480-176R
3/82	Department of Corrections CA Medical Facility	524-533
3/82	Department of Corrections CA State Prison at Folsom	524-538
3/82	Department of Parks and Recreation CA Expo & State Fair, Camp Stoves	04-480-172R
3/82	Department of Parks and Recreation CA Expo and State Fair	04-480-170R
3/82	California State University, San Jose	681-101
4/82	Department of Real Estate	232-001
4/82	Department of Rehabilitation Review Interagency Agreements with CA State University, Sonoma	516-004
4/82	Department of Corrections California Correctional Center	525-529
4/82	Department of Mental Health Metropolitan State Hospital	445-449
4/82	Department of Corrections California Medical Facility	525-533

<u>Date</u>	<u>Department Reviewed</u>	<u>Report #</u>
5/82	California State University, Fullerton	671-101
5/82	Department of General Services Rehabilitation of State-Owned Multi-Family Residential Structures	04-480-177R
5/82	Department of Corrections CA Correctional Institution	525-530
5/82	Department of Corrections San Quentin State Prison	525-539
5/82	Department of Developmental Services Sonoma State Hospital	04-480-167R
5/82	California State College, San Bernardino	666-101
6/82	Department of Health Services Redwood Health Foundation	426-131
6/82	San Diego State University	679-101
6/82	California State University, Northridge	676-101
6/82	Department of Conservation	349-001
6/82	Office of Economic Opportunity Review of Contracts with Telacu	512-003
6/82	Department of Corrections Sierra Conservation Center	525-540
6/82	Energy Resources Conservation and Development Commission	336-001
6/82	Office of the State Controller	084-001
6/82	California Horse Racing Board	855-001
6/82	Department of Developmental Services Porterville State Hospital	431-439
6/82	Department of Developmental Services Lanternman State Hospital	431-437
6/82	State Lands Commission	356-001
6/82	Office of Emergency Services	069-003
6/82	Department of the Youth Authority	547-001

<u>Date</u>	<u>Department Reviewed</u>	<u>Report #</u>
6/82	California Housing Finance Agency	226-001
6/82	California State University Dominguez Hills	669-101
7/82	California State University Los Angeles	675-101
8/82	Seismic Safety - So. California Earthquake Preparedness Project	358-101R
8/82	California State College, Bakersfield	665-101
8/82	California State Polytechnic University Pomona	677-101
9/82	California State University, Fresno	670-101
9/82	Department of Aging - IC/FC	417-003
9/82	Department of Savings and Loan	234-001
9/82	Department of Alcoholic Beverage Control	210-001
9/82	State Board of Equalization	086-001
9/82	California Conservation Corps	334-001
9/82	Solid Waste Management Board	338-001
9/82	Military Department	894-001
10/82	Department of Social Services	518-002
10/82	Department of Insurance	229-002
8/82	Cal State Long Beach	674-101
9/82	Banking Department	214-001
9/82	Housing and Community Development	224-001
9/82	Cal-Expo	380-001
9/82	Department of Food and Agriculture Medfly	858-001
11/82	Boating and Waterways	368-001
12/82	Department of Health Services - Review of Laboratory Rates for Medi-Cal Program	426-134
12/82	Department of Health Services Dental Service Contract	426-135

DISTRIBUTION OF WEAKNESSES IN INTERNAL CONTROLS BY STATE AGENCY
BASED ON MANAGEMENT LETTERS ISSUED FOR FISCAL YEAR ENDED JUNE 30, 1982

	Weaknesses In Revenue Activities			Weaknesses In Expenditure Activities			Weaknesses In Reporting Activities	
	Inadequate Procedures for Billing and Collecting Receivables	Inadequate Procedures for Identifying and Depositing Collections	Inadequate Revenue Recognition Procedures	Inadequate Separation of Duties Over Disbursements	Listings of Authorized Signatures Are Not Kept Current	Inadequate Control Over Revolving Fund	Inadequate Reconciliation of Bank Accounts	Inadequate Preparation of Financial Statements
Alcohol and Drug Programs, Department of	X					X		X
Alcoholic Beverage Control, Department of				X				X
California Community Colleges, Board of Governors		X		X				
California Conservation Corps				X		X		X
California Highway Patrol, Department of						X		X
California Horseracing Board			X				X	
California State University								
Fresno	X			X		X		
Long Beach		X				X		
Los Angeles		X		X		X		
Northridge				X				
Pomona				X		X		
Sacramento				X				
San Diego			X	X				
San Francisco				X		X		
San Jose	X			X				
California Youth Authority								
Northern California Youth Center						X		
Youth Training School						X		
Corrections, Department of								
Administration				X				
California Institution for Men						X		
California Medical Facility						X		
California State Prison, San Quentin						X		
Correctional Training Facility						X		
Parole and Community Services				X			X	

APPENDIX A

	Weaknesses In Revenue Activities				Weaknesses In Expenditure Activities				Weaknesses In Reporting Activities	
	Inadequate Separation of Duties Over Revenue	Inadequate Procedures for Billing and Collecting Receivables	Inadequate Procedures for Identifying and Depositing Collections	Inadequate Revenue Recognition Procedures	Inadequate Separation of Duties Over Disbursements	Listings of Authorized Signatures Are Not Kept Current	Inadequate Control Over Revolving Fund	Inadequate Reconciliation of Bank Accounts	Inadequate Preparation of Financial Statements	
Criminal Justice Planning, Department of	X								X	
Education, State Department of		X	X						X	
Employment Development Department		X	X	X	X				X	
Equalization, Board of		X		X						
Forestry, Department of		X			X					
Franchise Tax Board		X		X						X
General Services, Department of		X								X
Health Services, Department of		X	X		X	X				X
Housing & Community Development, Department of			X				X	X		X
Justice, Department of		X			X					X
Mental Health, Department of										
Motor Vehicles, Department of			X		X		X			X
Parks and Recreation, Department of		X		X			X			
Social Services, Department of		X			X			X		
Stephen I. Teale Data Center	X				X					
State Controller, Office of		X				X				X
Transportation, Department of		X	X	X				X		X
Veterans' Affairs, Department of				X						
Water Resources Control Board, State	X				X					X
Water Resources, Department of	X									
Total	5	16	7	9	21	2	18	5		17

Note: Weaknesses noted may have multiple occurrences within each department. However, the weakness is noted only once.

PERFORMANCE AUDIT REPORTS ISSUED
JULY 1, 1981 TO JUNE 30, 1982

<u>DATE</u>	<u>TITLE</u>	<u>REPORT #</u>
JULY 23	IMPROVEMENTS WARRANTED IN THE CALIFORNIA DEPARTMENT OF AGING'S ADMINISTRATION OF PROGRAMS FOR THE ELDERLY	P-014.4
JULY 23	T-BONE STEAKS SERVED TO THE INMATES AT THE CALIFORNIA INSTITUTION FOR MEN AT CHINO	P-079
JULY 27	STATE'S EFFECTIVENESS IN AUDITING THE FEDERALLY ADMINISTERED SUPPLEMENTAL SECURITY INCOME/ STATE SUPPLEMENTARY PROGRAM (SSI/SSP)	P-008
AUG 26	OVERVIEW OF THE ORGANIZATION, ROLES, AND RESPONSIBILITIES OF THE STATE DEPARTMENT OF EDUCATION	P-065
SEP 2	THE CSC HAS AUTHORIZED AT LEAST \$12.6 MILLION IN RECOVERABLE MEDI-CAL OVERPAYMENTS THAT AN IMPROVED QUALITY ASSURANCE PROGRAM MAY HAVE DETECTED	P-044
OCT 8	WIDE VARIATIONS IN SCHOOL DISTRICT COSTS FOR ADMINISTERING THE STATE-MANDATED IMMUNIZATION PROGRAM	P-048
OCT 9	DEPARTMENT OF SOCIAL SERVICES: THE NEEDS OF CHILDREN IN THE FOSTER CARE AND ADOPTION PROGRAMS ARE NOT BEING MET	P-003.2
OCT 14	PROCUREMENT OF STERILE MEDFLIES FROM PERU: RESPONSE TO QUESTIONS POSED BY THE LEGISLATURE	P-092
OCT 26	IMPROVEMENTS NEEDED IN THE DEPARTMENT OF SOCIAL SERVICES' ADMINISTRATION OF PERSONAL SERVICE CONTRACTS	P-028
OCT 26	A REVIEW OF THE STATE DEPARTMENT OF EDUCATION'S SYSTEM FOR MANAGING CONSULTANT CONTRACTS	P-066
OCT 26	CALIFORNIA'S HAZARDOUS WASTE MANAGEMENT PROGRAM DOES NOT FULLY PROTECT THE PUBLIC FROM THE HARMFUL EFFECTS OF HAZARDOUS WASTE	P-053

<u>DATE</u>	<u>TITLE</u>	<u>REPORT #</u>
DEC 2	A REVIEW OF THE CALIFORNIA DEPARTMENT OF FORESTRY'S AERIAL FIREFIGHTING PROGRAM	P-039
DEC 15	COMPLIANCE ISSUES IN THE MEDI-CAL COMPONENT OF THE SHORT-DOYLE PROGRAM	P-085
JAN 12	SCHOOL DISTRICTS NEED TO IMPROVE THEIR ADMINISTRATION OF CONSULTANT CONTRACTS	P-060
JAN 14	A REVIEW OF THE DEPARTMENT OF TRANSPORTATION'S ADMINISTRATION OF EXCESS LAND	P-102
JAN 15	A DISCUSSION OF THE DEPARTMENT OF REHABILITATION'S DECISION TO SUSPEND SERVICES TO THE DISABLED DURING FISCAL YEAR 1980-81	P-038
JAN 19	THE DEPARTMENT OF HEALTH SERVICES' NEWBORN SCREENING PROGRAM: RESPONSE TO QUESTIONS POSED BY THE LEGISLATURE	P-093
JAN 20	A REVIEW OF THE OPERATIONS OF THE CALIFORNIA STATE UNIVERSITY AND COLLEGES' FOUNDATIONS	P-051
JAN 29	THE DEPARTMENT OF SOCIAL SERVICES' REFUGEE RESETTLEMENT PROGRAM: RESPONSE TO QUESTIONS POSED BY THE LEGISLATURE	P-110
FEB 19	GOLDEN GATE BRIDGE, HIGHWAY AND TRANSPORTATION DISTRICT: RESPONSE TO QUESTIONS POSED BY THE LEGISLATURE	P-108
FEB 25	THE SYSTEM FOR ADJUDICATING WORKERS' COMPENSATION DISPUTES CAN BE ACCELERATED WITHOUT A BUDGETARY INCREASE	P-045
MAR 9	THE CALIFORNIA HORSE RACING BOARD NEEDS TO IMPROVE ITS REGULATORY CONTROL OF HORSE RACING	P-076
MAR 16	IMPROVEMENTS NEEDED IN THE STATE DEPARTMENT OF EDUCATION'S APPORTIONMENT OF STATE SCHOOL FUNDS	P-032
MAR 30	THE DEPARTMENT OF TRANSPORTATION'S REPLACEMENT OF THE TOWN CREEK BRIDGE: RESPONSE TO QUESTIONS POSED BY THE LEGISLATURE	P-115

<u>DATE</u>	<u>TITLE</u>	<u>REPORT #</u>
MAR 30	CONTROLS OVER THE USE OF WORD PROCESSING EQUIPMENT WITHIN THE GOVERNOR'S OFFICE	P-040
APR 7	THE AMOUNT OF RENT DUE TO THE STATE FROM BAZAAR DEL MUNDO, INC., A CONCESSIONAIRE AT OLD TOWN SAN DIEGO STATE HISTORIC PARK, IS IN QUESTION	P-111
APR 20	OPPORTUNITIES EXIST TO STRENGTHEN THE STATE'S SYSTEMS FOR RESPONDING TO EMERGENCIES INVOLVING HAZARDOUS MATERIALS	P-106
APR 23	CALIFORNIA STATE POLICE DIVISION PRO RATA ASSESSMENTS FOR POLICE SERVICES ARE INACCURATE	P-024
APR 23	REVIEW OF THE CALIFORNIA WATER TASK FORCE	LR-214
APR 27	A REVIEW OF THE STUDENT AID COMMISSION'S ADMINISTRATION OF MAJOR STUDENT AID PROGRAMS	P-015
APR 30	FUNDS ALLOCATED TO THE STATE SCHOOL BUILDING LEASE-PURCHASE PROGRAM	LR-226
MAY 3	CONTRACTS AWARDED BY THE STATE TO INSURANCE CARRIERS TO PROVIDE DENTAL CARE TO STATE EMPLOYEES	LR-114
MAY 11	GOLDEN GATE BRIDGE, HIGHWAY AND TRANSPORTATION DISTRICT: REVIEW OF DISTRICT'S RESPONSE TO DEMANDS FOR MAJOR INCREASES FOR FERRY AND BUS SERVICE	LR-108.1
MAY 13	DEPARTMENT OF SOCIAL SERVICES' EFFORTS TO OBTAIN FEDERAL FUNDING ASSISTANCE TO FAMILIES	LR-225
MAY 18	THE CALIFORNIA HEALTH FACILITIES COMMISSION CAN IMPROVE THE REPORTING OF HEALTH-CARE DATA	P-087
MAY 25	MEDI-CAL CAN REDUCE CERTAIN PROGRAM AND ADMINISTRATIVE EXPENDITURES	P-094
JUNE 1	LOBBYING ACTIVITIES OF COUNTY GOVERNMENTS AND REPORTING REQUIREMENTS FOR LOBBYING WITHIN THE POLITICAL REFORM ACT OF 1974	LR-078
JUNE 21	REVIEW OF ENFORCEMENT PROCEDURES USED BY THE DEPARTMENT OF CONSUMER AFFAIRS' BUREAU OF COLLECTION AND INVESTIGATIVE SERVICES	LR-218

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
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